GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	SB0105		**Title:**	Revise unemployment insurance laws
Primary Sponsor:	Arntzen, Elsie		**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
State Special Revenue	$4,066	$0	$0	$0
Federal Special Revenue	$3,326	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
Federal Special Revenue	$0	$89,843	$108,476	$108,476
Other	($27,860)	($111,440)	($111,440)	($111,440)
Net Impact-General Fund Balance:	$0	$0	$0	$0

Description of fiscal impact: This bill will increase federal special revenue due to imposition of penalties against certain employers who fail to submit electronic wage reports and/or pay contributions due by electronic means per Section 14 subsection (4). This bill will reduce contributions to the Unemployment Trust Fund by eliminating the penalty rate on employers that owe $50.00 or less at the time rates are set.

FISCAL ANALYSIS

Assumptions:

Department of Labor and Industry – Unemployment Insurance Division

1. SB 105 has two provisions that have potential fiscal impact to the Unemployment Insurance (UI) Penalty Federal Special Revenue Fund: (1) A requirement for certain employers to electronically file quarterly wage reports or incur a penalty of $1/employee covered in each report, and (2) a requirement for those same employers to electronically pay their quarterly contribution or incur a penalty of $1/employee from that quarter. Assumptions 2 through 6 pertain to the E-FILE requirement and penalty. Assumptions 7 through 11 pertain to the E-PAY requirement. Assumptions 12 and 13 pertain to combined impact.

2. Employers who meet the criteria set forth in Section 14, subsection (1) - either 50 or more employees, $1 million annual payroll, or both - and who could be subject to penalties imposed under subsection (4) of that section for failure to electronically file quarterly wage records (Non E-FILE) is based on a data extract from CY 2014. The extract included 88,596 wage records that met the criteria.
3. The division assumes that it would adopt rules specifying approved electronic filing methods and when penalties would be applied. For purpose of this fiscal note, it is assumed that no penalties would be imposed the first year this requirement applied to allow businesses time to gain compliance. Therefore, the first quarter for which a penalty could be levied would be the quarter ending March 31, 2017 of FY 2017.
4. The division assumes that employers who have 100 or more employees will comply with the Section 14 subsection (1) requirement to electronically report wages by the time the bill is implemented (January 1, 2016). This represents 210 employers, with 57,540 wage records. The table below shows the non-compliance employers who meet criteria for electronic wage reporting (Non E-FILE) for FY 2016.

Employers Impacted by SB 105	**Employers**	**# Wage Records (Employees)**	**Penalty $1.00 per employee/quarter**
Current number of employers	752	88,596	
Less employers with 100 or > employees	210	57,540	
FY 2016 Employers Impacted by SB 105	542	31,056	$0.00

5. The division assumes that by January 1, 2017, 80% of the 542 employers who did not e-file in FY 2016 will comply with the electronic wage report requirement as indicated below:

Employers Impacted by SB 105	**Employers**	**# Wage Records (Employees)**	**Penalty $1.00 per employee**	**FY 2017 Impact 1 Quarters Penalty**
FY 2017	542	31,056		
Less Projected 80% compliance	434	24,845		
FY 2017	108	6,211	$6,211	$6,211

6. For FY 2018 and FY 2019, the division assumes no change in employer compliance. [$6,211 x 4 quarters = $24,844]
7. Employers who meet the criteria set forth in Section 14, subsection (1) - either 50 or more employees, $1 million annual payroll, or both - and who could be subject to penalties imposed under subsection (3) of that section for failure to electronically pay quarterly contributions (Non E-PAY) is based on a data extract from CY 2014. The extract included 206,583 wage records that met the criteria.
8. The division assumes that employers who have 100 or more employees will comply with the Section 14 subsection (3) requirement to electronically pay contributions, penalties, and interest by the time the bill is implemented (January 1, 2016). This represents 173 employers, with 39,318 wage records. The table that follows shows the non-compliance employers who meet criteria for electronic payment (Non E-PAY) for FY 2016.

Employers Impacted by SB 105	Employers	# Wage Records (Employees)	Penalty $1.00 per employee/quarter
Current number of employers	1,416	206,583	
Less employers with 100 or > employees	173	39,318	
FY 2016 Employers Impacted by SB 105	1,243	167,265	$0.00

9. FY 2017 assumes that by January 1, 2017, 50% of the 1,243 non-compliant employers in FY 2016 will comply with the electronic payment requirement as indicated below:

Employers Impacted by SB 105	Employers	# Wage Records (Employees)	Penalty $1.00 per employee	FY 2017 Impact 1 Quarters Penalty
FY 2017	1,243	167,265		
Less Projected 50% compliance	622	83,633		
FY 2017	621	83,632	$83,632	$83,632

10. FY 2018 assumes 75% of the 621 non-compliant employers in FY 2017 will comply with the electronic payment requirement as indicated below:

Employers Impacted by SB 105	Employers	# Wage Records (Employees)	Penalty $1.00 per employee	FY 2018 Impact 4 Quarters Penalty
FY 2018	621	83,632		
Less Projected 75% compliance	466	62,724		
FY 2018	155	20,908	$20,908	$83,632

11. The division assumes no change in compliance rate for FY 2018 and 2019. [$20,908 x 4= $83,632]
12. The total impact for both the penalty for non-electronic filing and non-electronic payment would be $89,843 in FY 2017, and $108, 476 in FY 2018 and FY2019.
13. SB 105 has one provision that has potential fiscal impact to the UI Trust Fund. This provision eliminates the penalty rate for employers who owe less than $50 to the division. To quantify revenue impacts of this provision [Section 8, subsection (6)], the division used data from the November 2014 rate run. Assumptions 14 through 18 pertain to elimination of penalty tax rate.
14. The November rate run showed 263 employers who owed $50 or less, with an average amount outstanding of $30.84.
15. The division assumes that the number of employers, average contribution rate and penalty rate will remain constant through FY 2019.
16. Under current law, the average contribution rate is 1.75%. The average penalty rate is derived by taking the contribution rate times an additional assessment of 50%.

17. The impact to the unemployment insurance trust fund from excluding employers with balances of $50.00 or less from the penalty rate, as of the cutoff date (when rates for the next year are determined), is detailed below:

Employer Count	Average Taxable wages Per year/ per employer	Total Average Taxable Wages for Employers owing $50.00 or <	Average Contribution Rate	Average Penalty Rate (50%)	Contribution including Penalty	Contribution excluding Penalty (Section 8 SB 105)	Fiscal Impact Per Year
263	$48,704	$12,809,152	1.75%	2.62%	$335,600	$224,160	($111,440)

18. In FY 2016, only one quarter will be impacted. [($27,860)] In FY 2017, FY 2018, and FY 2019, the trust fund will be impacted in all quarters. ($111,440)
19. The computer programming needed to make the necessary changes to the department's UI computer system is estimated to cost $7,392.

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses	$7,392	$0	$0	$0
TOTAL Expenditures	$7,392	$0	$0	$0
Funding of Expenditures:				
State Special Revenue (02)	$4,066	$0	$0	$0
Federal Special Revenue (03)	$3,326	$0	$0	$0
TOTAL Funding of Exp.	$7,392	$0	$0	$0
Revenues:				
Federal Special Revenue (03)	$0	$89,843	$108,476	$108,476
Other	($27,860)	($111,440)	($111,440)	($111,440)
TOTAL Revenues	($27,860)	($21,597)	($2,964)	($2,964)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
State Special Revenue (02)	($4,066)	$0	$0	$0
Federal Special Revenue (03)	($3,326)	$89,843	$108,476	$108,476
Other	($27,860)	($111,440)	($111,440)	($111,440)

Effect on County or Other Local Revenues or Expenditures:

1. There are currently local and county governments that don't report electronically. They could have a penalty assessed if they don't comply.

1/5/15

Sponsor's Initials | *Date* | *Budget Director's Initials* | *Date*